Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Text

CONFIDENTIAL

PAGE 01 BUDAPE 00798 030918Z

43
ACTION EUR-25

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C O N F I D E N T I A L BUDAPEST 0798

E.O. 11652: GDS
TAGS: EGEN, HU
SUBJECT: HUNGARIAN ECONOMY

1. DURING CONVERSATION WITH NATIONAL BANK PRESIDENT LASZLO ABOUT FRB CHAIRMAN BURNS VISIT (BUDAPEST 775) I HAD OPPORTUNITY TO DISCUSS A FEW POINTS ABOUT HUNGARIAN ECONOMY WITH HIM.

2. I FIRST COMMENTED THAT IT SEEMED TO ME THAT HUNGARY WOULD NOT BE ABLE TO SHIELD ITSELF NEXT YEAR FROM PASSING ON TO CONSUMER MORE OF WESTERN INFLATIONARY IMPACT THAN IT WAS DOING THIS YEAR. LASZLO SAID THAT IF WESTERN PRICE LEVEL INCREASES NOW LEVELLED OFF THIS WOULD NOT BE TRUE (IMPLYING THAT HE THOUGHT THEY WOULD LEVEL OFF). HE ADDED THAT HE THOUGHT INTELLECTUAL CONCEPT OF INFLATION HAD TO BE CHANGED. SOME INCREASE IN PRICE LEVELS ALWAYS ACCOMPANIED ECONOMIC DEVELOPMENT. BUT PRINCIPAL THING TO LOOK AT WAS TREND IN REAL WAGES.

3. LASZLO SAID HE PERSONALLY THOUGHT, FOR EXAMPLE, THAT PRICES ON NUMBER OF CONSUMER COMMODITIES IN HUNGARY SHOULD BE CHAGED CONSIDERABLY IN ORDER TO AFFECT CONSUMPTION PATTERN. AT SAME TIME HE FELT THIS SHOULD BE COMPENSATED BY WAGE INCREASES.

4. I ASKED WHETHER COMPENSATING FACTOR COULD NOT BE TO REDUCE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BUDAPE 00798 030918Z

PRICES ON OTHER CONSUMER COMMODITIES, THUS MAINTAINING PRICE

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

LEVEL WHILE ALSO HAVING FURTHER EFFECT ON CONSUMPTION PATTERN. LASZLO SAID THAT MADE ME SOMETHING OF A DOGMATIST, COMMENTING THAT IN RECENT DISCUSSIONS IN HUNGARY IT WAS THE "DOGMATISTS" WHO WERE TAKING SUCH POSITION ON INFLATIONARY AND CONSUMER PRICE PROBLEMS. PROBLEM OF USING PRICE REDUCTIONS TO COUNTERACT PRICE INCREASES WAS THAT SUCH CHANGES TREATED EVERYONE THE SAME. WHAT WAS NEEDED IN ADDITION TO CHANGE IN PATTERN OF CONSUMPTION WAS ALSO A DIFFERENTIAL INCOME ADJUSTMENT FOR WORKING PEOPLE, TO INCREASE THEIR RELATIVE PURCHASING POWER. AN INCREASED PRICE LEVEL WAS NOT IMPORTANT IF REAL WAGES INCREASED ENOUGHT TO COUNTERACT IT.

5. I THEN ASKED ABOUT THE INTENT CONCERNING WAGE STRUCTURE, NOTING THAT RECENT CENTRAL COMMITTEE SESSION HAD CALLED FOR UNIFORM WAGE SYSTEM THROUGHOUT COUNTRY, I.E. WHETHER THE PLANT WAS IN BUDAPEST OR A VILLAGE AND WHETHER PLANT WAS PROFITABLE OR NOT, AND REGARDLESS OF MERITS OF WORKERS IN SAME CATEGORY JOBS. LASZLO SAID THIS WAS NOT QUITE RIGHT. THERE WAS TO BE STANDARDIZATION AND SECURITY OF BASIC WAGE THROUGHOUT COUNTRY. HOWEVER, WORKERS IN PROFITABLE ENTERPRISES WOULD STILL BENEFIT FROM BONUSES AND WORKERS WHO WERE MORE PRODUCTIVE WOULD BE GIVEN MONETARY RECOGNITION ALSO. THERE WAS NOT TIME TO EXPLORE THIS FURTHER TO FIND OUT HOW MUCH OF A CHANGE IN PROPORTION THERE IS IN FORTHCOMING DECISIONS FROM SYSTEM THAT HAS PREVAILED FOR THE LAST TWO YEARS. HOWEVER, HIS COMMENT MAKES IT APPARENT THAT, WHILE MORE UNIFORM, THE NEW WAGE SYSTEM WILL NOT BE AS RIGIDLY UNIFORM AS MIGHT HAVE BEEN IMPLIED TFROM THE TEXT OF THE COMMENTS ON IT.

6. COMMENT: LASZLO'S REFERENCE TO "DOGMATISTS" WAS INTERESTING. WHILE HE PUT ISSUE AS REPOTED, HE COULD ALSO HAVE HAD IN MIND FACT THAT PRICE REDUCTIONS COULD ONLY BE BROUGHT ABOUT AT COST OF INCREASED SUBSIDIES. CONTINUALLY INCREASING SUBSIDIES WOULD, OF COURSE, CARRY WITH THEM INCREASED STATE INTERVENTION IN THE ECONOMIC SYSTEM. ALTERNATIVE DEFINITION OF "DOGMATISTS" IN CONTEXT OF THIS DISCUSSION WOULD BE THAT THEY ARE THOSE WHO HOLD THAT THE ONLY WAY TO CARRY OUT PARTY'S COMMITMENT TO HOLD INFLATIONARY EFFECT TO 2 PERCENT IS TO HOLD PRICE LEVEL INCREASE TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BUDAPE 00798 030918Z

THAT AVERAGE, WHEREAS HE IS ARGUING THAT HIGHER-LEVEL RICE INCREASE ACCOMPANIED BY SUFFICIENTLY COMPENSATING WAGE INCREASE ACHIEVES THE SAME RESULT.
PEDERSEN

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Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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